



FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON

OFFICE OF  
THE CHAIRMAN

April 10, 2020

The Honorable Mike Quigley  
Chairman  
Committee on Appropriations  
Subcommittee on Financial Services and General Government  
U.S. House of Representatives  
2000 Rayburn House Office Building (G Floor)  
Washington, D.C. 20515

Dear Chairman Quigley:

On November 18, the Government Accountability Office (GAO) released a report entitled *FCC Should Take Additional Action to Manage Fraud Risks in Its Program to Support Broadband Service in High-Cost Areas* (Report). The Report examines the extent to which the FCC is effectively managing fraud risks for the Universal Service Fund High-Cost program.

The Report makes five recommendations focused on improving the Commission's fraud risk management program and modifying the rate-of-return high-cost support mechanisms in order to mitigate fraud risk. Specifically, to improve its fraud risk management framework, GAO recommends that the FCC follow GAO's leading practices to establish a dedicated entity to manage antifraud activities, plan regular fraud-risk assessments tailored to the High-Cost program and determine the program's fraud risk profile, and design and implement an antifraud strategy with specific control activities, based upon the results of fraud-risk assessments and corresponding fraud risk profile. Additionally, GAO recommends that the FCC modify its rate-of-return program in order to mitigate fraud risk by assessing the model-based support mechanism to determine the extent to which it produces reliable cost estimates, and consider whether to make use of the model-based support mechanism mandatory, depending on the results of any such assessment.

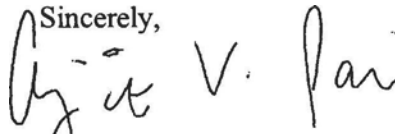
In their October 8, 2019 response to the draft report, the Managing Director and Chief of the FCC's Wireline Competition Bureau noted that the Commission has taken a variety of administrative and programmatic actions to reduce the risk of fraud in the High-Cost program. The response also committed to undertake further improvements to the FCC's fraud risk management program, consistent with GAO's recommendations. Additionally, the response committed to consider how to improve use of model-based support mechanisms, and other incentive regulation, to encourage carriers to transition from legacy programs.

I share your interest in protecting the integrity of the Fund as we work to close the digital divide and bring digital opportunity to all Americans. That is why I led efforts to reform and modernize the High-Cost program to make it more effective, efficient, and accountable. Among other things, we provided an opportunity for providers serving some of the smallest and most rural areas—rate-of-return carriers—to elect model-based support in exchange for robust

broadband deployment. As GAO noted, this shift towards incentive-based regulation has helped to advance the Commission's longstanding objective of administering the Fund in a fiscally responsible manner and to protect it from the risk of waste, fraud, and abuse. Consistent with GAO's recommendations, staff is considering whether there are additional opportunities to improve the use of model-based support mechanisms and other incentive regulation.

As detailed in the October 8 response, the Commission has also implemented a comprehensive fraud risk management strategy, which includes an annual risk assessment of the High-Cost and other universal service programs, a number of internal control processes, and a variety of oversight procedures—including audits, self-certification, and data validation processes. Additionally, the Commission has implemented deployment verification and performance validation procedures to ensure that carriers meet their defined compliance obligations. Taken together, we believe that these efforts have helped to prevent waste, fraud, and abuse in the High-Cost program. We are building on these efforts by implementing GAO's recommendations to comport the Commission's fraud risk management processes with GAO's fraud risk framework. Currently, the Commission is working with the Universal Service Administrative Company (USAC) to implement the GAO fraud risk framework at USAC for the High-Cost program. As part of this effort, USAC will have a fraud risk assessment conducted of the High-Cost program, and the Commission is collaborating with USAC to ensure that these efforts result in an overall fraud risk strategy that can be utilized for all of the Universal Service Fund programs going forward.

I appreciate the opportunity to comment on the Report and would be happy to discuss further if you have any questions.

Sincerely,  
  
Ajit V. Pai



FEDERAL COMMUNICATIONS COMMISSION  
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THE CHAIRMAN

April 10, 2020

The Honorable Tom Graves  
Ranking Member  
Committee on Appropriations  
Subcommittee on Financial Services and General Government  
U.S. House of Representatives  
1016 Longworth Office Building  
Washington, D.C. 20515

Dear Ranking Member Graves:

On November 18, the Government Accountability Office (GAO) released a report entitled *FCC Should Take Additional Action to Manage Fraud Risks in Its Program to Support Broadband Service in High-Cost Areas* (Report). The Report examines the extent to which the FCC is effectively managing fraud risks for the Universal Service Fund High-Cost program.

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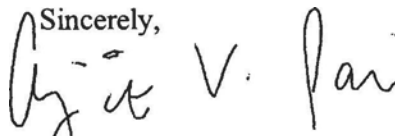
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I appreciate the opportunity to comment on the Report and would be happy to discuss further if you have any questions.

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Ajit V. Pai



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OFFICE OF  
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April 10, 2020

The Honorable John N. Kennedy  
Chairman  
Committee on Appropriations  
Subcommittee on Financial Services and General Government  
United States Senate  
S-128 The Capital Building  
Washington, D.C. 20510

Dear Chairman Kennedy:

On November 18, the Government Accountability Office (GAO) released a report entitled *FCC Should Take Additional Action to Manage Fraud Risks in Its Program to Support Broadband Service in High-Cost Areas* (Report). The Report examines the extent to which the FCC is effectively managing fraud risks for the Universal Service Fund High-Cost program.

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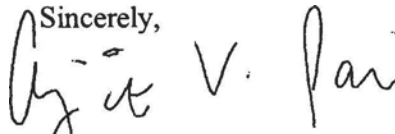
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THE CHAIRMAN

FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON

April 10, 2020

The Honorable Chris Coons  
Ranking Member  
Committee on Appropriations  
Subcommittee on Financial Services and General Government  
United States Senate  
125 Hart Senate Office Building  
Washington, D.C. 20510

Dear Ranking Member Coons:

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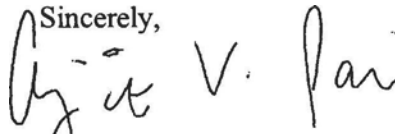
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Ajit V. Pai





FEDERAL COMMUNICATIONS COMMISSION  
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THE CHAIRMAN

April 10, 2020

The Honorable Roger Wicker  
Chairman  
Committee on Commerce, Science, and Transportation  
United States Senate  
512 Dirksen Senate Office Building  
Washington, D.C. 20510

Dear Chairman Wicker:

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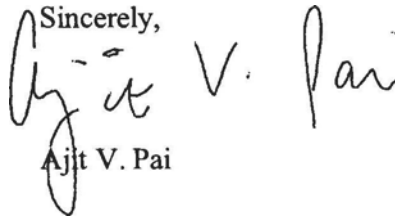
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Ajit V. Pai



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THE CHAIRMAN

FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON

April 10, 2020

The Honorable Maria Cantwell  
Ranking Member  
Committee on Commerce, Science, and Transportation  
United States Senate  
425 Hart Senate Office Building  
Washington, D.C. 20510

Dear Ranking Member Cantwell:

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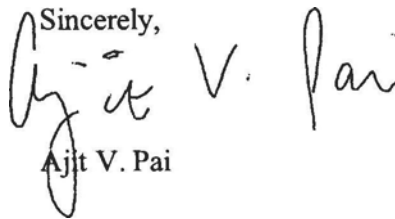
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FEDERAL COMMUNICATIONS COMMISSION  
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April 10, 2020

The Honorable Frank Pallone  
Chairman  
Committee on Energy and Commerce  
U.S. House of Representatives  
2125 Rayburn House Office Building  
Washington, D.C. 20515

Dear Chairman Pallone:

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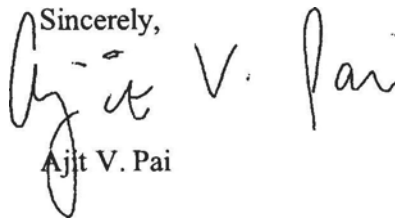
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April 10, 2020

The Honorable Greg Walden  
Ranking Member  
Committee on Energy and Commerce  
U.S. House of Representatives  
2322A Rayburn House Office Building  
Washington, D.C. 20515

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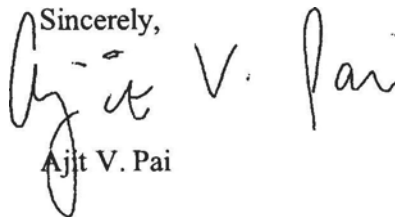
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The Honorable Ron Johnson  
Chairman  
Committee on Homeland Security and Governmental Affairs  
United States Senate  
340 Dirksen Senate Office Building  
Washington, D.C. 20510

Dear Chairman Johnson:

On November 18, the Government Accountability Office (GAO) released a report entitled *FCC Should Take Additional Action to Manage Fraud Risks in Its Program to Support Broadband Service in High-Cost Areas* (Report). The Report examines the extent to which the FCC is effectively managing fraud risks for the Universal Service Fund High-Cost program.

The Report makes five recommendations focused on improving the Commission's fraud risk management program and modifying the rate-of-return high-cost support mechanisms in order to mitigate fraud risk. Specifically, to improve its fraud risk management framework, GAO recommends that the FCC follow GAO's leading practices to establish a dedicated entity to manage antifraud activities, plan regular fraud-risk assessments tailored to the High-Cost program and determine the program's fraud risk profile, and design and implement an antifraud strategy with specific control activities, based upon the results of fraud-risk assessments and corresponding fraud risk profile. Additionally, GAO recommends that the FCC modify its rate-of-return program in order to mitigate fraud risk by assessing the model-based support mechanism to determine the extent to which it produces reliable cost estimates, and consider whether to make use of the model-based support mechanism mandatory, depending on the results of any such assessment.

In their October 8, 2019 response to the draft report, the Managing Director and Chief of the FCC's Wireline Competition Bureau noted that the Commission has taken a variety of administrative and programmatic actions to reduce the risk of fraud in the High-Cost program. The response also committed to undertake further improvements to the FCC's fraud risk management program, consistent with GAO's recommendations. Additionally, the response committed to consider how to improve use of model-based support mechanisms, and other incentive regulation, to encourage carriers to transition from legacy programs.

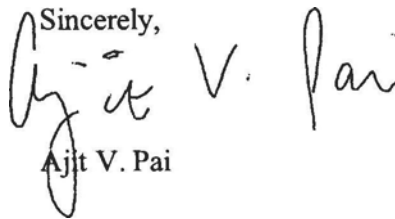
I share your interest in protecting the integrity of the Fund as we work to close the digital divide and bring digital opportunity to all Americans. That is why I led efforts to reform and modernize the High-Cost program to make it more effective, efficient, and accountable. Among other things, we provided an opportunity for providers serving some of the smallest and most rural areas—rate-of-return carriers—to elect model-based support in exchange for robust broadband deployment. As GAO noted, this shift towards incentive-based regulation has helped



to advance the Commission's longstanding objective of administering the Fund in a fiscally responsible manner and to protect it from the risk of waste, fraud, and abuse. Consistent with GAO's recommendations, staff is considering whether there are additional opportunities to improve the use of model-based support mechanisms and other incentive regulation.

As detailed in the October 8 response, the Commission has also implemented a comprehensive fraud risk management strategy, which includes an annual risk assessment of the High-Cost and other universal service programs, a number of internal control processes, and a variety of oversight procedures—including audits, self-certification, and data validation processes. Additionally, the Commission has implemented deployment verification and performance validation procedures to ensure that carriers meet their defined compliance obligations. Taken together, we believe that these efforts have helped to prevent waste, fraud, and abuse in the High-Cost program. We are building on these efforts by implementing GAO's recommendations to comport the Commission's fraud risk management processes with GAO's fraud risk framework. Currently, the Commission is working with the Universal Service Administrative Company (USAC) to implement the GAO fraud risk framework at USAC for the High-Cost program. As part of this effort, USAC will have a fraud risk assessment conducted of the High-Cost program, and the Commission is collaborating with USAC to ensure that these efforts result in an overall fraud risk strategy that can be utilized for all of the Universal Service Fund programs going forward.

I appreciate the opportunity to comment on the Report and would be happy to discuss further if you have any questions.

Sincerely,  
  
Ajit V. Pai



FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON

OFFICE OF  
THE CHAIRMAN

April 10, 2020

The Honorable Gary Peters  
Ranking Member  
Committee on Homeland Security and Governmental Affairs  
United States Senate  
442 Hart Senate Office Building  
Washington, D.C. 20510

Dear Ranking Member Peters:

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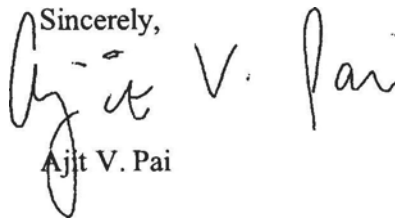
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I appreciate the opportunity to comment on the Report and would be happy to discuss further if you have any questions.

Sincerely,  
  
Ajit V. Pai





FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON

OFFICE OF  
THE CHAIRMAN

April 10, 2020

The Honorable Carolyn B. Maloney  
Chairwoman  
Committee on Oversight and Government Reform  
U.S. House of Representatives  
2157 Rayburn House Office Building  
Washington, DC 20515

Dear Chairwoman Maloney:

On November 18, the Government Accountability Office (GAO) released a report entitled *FCC Should Take Additional Action to Manage Fraud Risks in Its Program to Support Broadband Service in High-Cost Areas* (Report). The Report examines the extent to which the FCC is effectively managing fraud risks for the Universal Service Fund High-Cost program.

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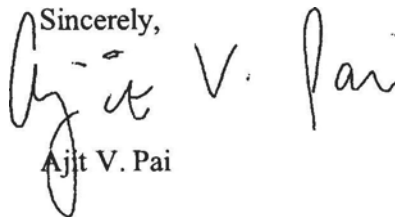
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I appreciate the opportunity to comment on the Report and would be happy to discuss further if you have any questions.

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FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON

OFFICE OF  
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April 10, 2020

The Honorable Jim Jordan  
Ranking Member  
Committee on Oversight and Government Reform  
U.S. House of Representatives  
2471 Rayburn House Office Building  
Washington, DC 20515

Dear Ranking Member Jordan:

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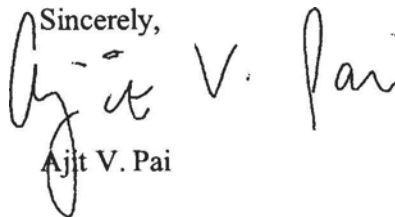
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